

**REPORT OF THE AUDIT OF THE
MONROE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2016**



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EXECUTIVE SUMMARY
AUDIT OF THE
MONROE COUNTY FISCAL COURT

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Monroe County Fiscal Court for the fiscal year ended June 30, 2016.

We have issued an unmodified opinion, based on our audit, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Monroe County Fiscal Court.

Financial Condition:

The Monroe County Fiscal Court had total receipts of \$4,999,008 and disbursements of \$4,104,123 in fiscal year 2016. This resulted in a total ending fund balance of \$2,931,199, which is an increase of \$894,885 from the prior year.

Findings:

2016-001 The Monroe County Jail Commissary Lacked Adequate Segregation Of Duties Over All Accounting Functions

Deposits:

The fiscal court's deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured as of August 31, 2015 \$277,910
- Uncollateralized and Uninsured as of June 30, 2016 \$289,840

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Tommy Willett, Monroe County Judge/Executive
Members of the Monroe County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Monroe County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Monroe County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Monroe County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Monroe County Fiscal Court as of June 30, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Monroe County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Monroe County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2017, on our consideration of the Monroe County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Monroe County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report finding:

2016-001 The Monroe County Jail Commissary Lacked Adequate Segregation Of Duties Over All Accounting Functions

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 15, 2017

MONROE COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Tommy Willett	County Judge/Executive
Alonzo Ford	Magistrate
Roger Deckard	Magistrate
Ricky Bartley	Magistrate
Mitchell Page	Magistrate
Karen Gordon	Magistrate

Other Elected Officials:

Wesley Stephens	County Attorney
Elmer Doyle Fox	Jailer
Teresa Sheffield	County Clerk
Joyce Emberton	Circuit Court Clerk
Dale "Frog" Ford	Sheriff
Louis L. Carter	Property Valuation Administrator
Jackie Walden	Coroner

Appointed Personnel:

Sheryl Conkin	County Treasurer
Sheila Sheffield	Finance Officer
Beverly Harper	Occupational Tax Administrator

MONROE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2016

MONROE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2016

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,521,959	\$	\$
In Lieu Tax Payments	52,224		
Excess Fees	77,710		
Licenses and Permits	17,752		
Intergovernmental	305,396	1,817,514	121,390
Charges for Services			10,526
Miscellaneous	207,483	34,312	14,300
Interest	2,358	1,510	26
Total Receipts	<u>2,184,882</u>	<u>1,853,336</u>	<u>146,242</u>
DISBURSEMENTS			
General Government	699,793		
Protection to Persons and Property	103,985		430,833
General Health and Sanitation	7,600		
Social Services	10,500		
Recreation and Culture	12,609		
Roads		1,296,987	
Airports			
Debt Service			
Capital Projects		32,830	
Administration	530,916	49,655	99,150
Total Disbursements	<u>1,365,403</u>	<u>1,379,472</u>	<u>529,983</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>819,479</u>	<u>473,864</u>	<u>(383,741)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			385,000
Transfers To Other Funds	(385,000)		
Total Other Adjustments to Cash (Uses)	<u>(385,000)</u>		<u>385,000</u>
Net Change in Fund Balance	434,479	473,864	1,259
Fund Balance - Beginning (Restated)	1,274,724	483,189	17,814
Fund Balance - Ending	<u>\$ 1,709,203</u>	<u>\$ 957,053</u>	<u>\$ 19,073</u>
Composition of Fund Balance			
Bank Balance	\$ 1,751,974	\$ 968,119	\$ 37,787
Less: Outstanding Checks	(42,771)	(11,066)	(18,714)
Fund Balance - Ending	<u>\$ 1,709,203</u>	<u>\$ 957,053</u>	<u>\$ 19,073</u>

The accompanying notes are an integral part of the financial statement.

MONROE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

Budgeted Funds		Unbudgeted Funds		
Local Government Economic Assistance Fund	Grant Fund	Public Properties Corporation Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$ 1,521,959
				52,224
				77,710
				17,752
28,007	16,200	743,505		3,032,012
				10,526
6,200			20,343	282,638
151		133	9	4,187
<u>34,358</u>	<u>16,200</u>	<u>743,638</u>	<u>20,352</u>	<u>4,999,008</u>
11,700				711,493
36,365				571,183
				7,600
				10,500
			18,495	31,104
				1,296,987
3,000				3,000
		742,005		742,005
	16,200			49,030
		1,500		681,221
<u>51,065</u>	<u>16,200</u>	<u>743,505</u>	<u>18,495</u>	<u>4,104,123</u>
(16,707)		133	1,857	894,885
				385,000
				(385,000)
(16,707)		133	1,857	894,885
<u>115,193</u>	<u>3</u>	<u>129,863</u>	<u>15,528</u>	<u>2,036,314</u>
<u>\$ 98,486</u>	<u>\$ 3</u>	<u>\$ 129,996</u>	<u>\$ 17,385</u>	<u>\$ 2,931,199</u>
\$ 99,236	\$ 3	\$ 129,996	\$ 17,419	\$ 3,004,534
(750)			(34)	(73,335)
<u>\$ 98,486</u>	<u>\$ 3</u>	<u>\$ 129,996</u>	<u>\$ 17,385</u>	<u>\$ 2,931,199</u>

The accompanying notes are an integral part of the financial statement.

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MONROE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Monroe County includes all budgeted and unbudgeted funds under the control of the Monroe County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The Monroe County Fire and Rescue Squad and Monroe County Recreation, Tourist, and Convention Commission would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis they are no longer are required components of the reporting entity.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Grant Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Monroe County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Monroe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Monroe County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of August 31, 2015, and June 30, 2016, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured as of August 31, 2015 \$277,910
- Uncollateralized and Uninsured as of June 30, 2016 \$289,840

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	General Fund	Total Transfers In
Jail Fund	\$ 385,000	\$ 385,000
Total Transfers Out	<u>\$ 385,000</u>	<u>\$ 385,000</u>

Reason for transfers:

To move resources from the general fund, for budgetary purposes, to the jail fund to expend them.

Note 4. Long-term Debt

A. First Mortgage Revenue Bonds, 2009

On December 1, 2009, the Monroe County Public Properties Corporation issued revenue bonds of \$10,005,000 to pay off the 2008 Series notes, which were originally issued for the purpose of constructing a Judicial Center, and to further the construction of the Judicial Center. The principal is payable annually on November 1 and the final payment is due November 1, 2028. Interest is payable semi-annually on May 1 and November 1 of each year at varying rates. As of June 30, 2016, the outstanding principal balance was \$7,485,000. Future principal and interest requirements are:

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-term Debt (Continued)

A. First Mortgage Revenue Bonds, 2009 (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 460,000	\$ 283,430
2018	470,000	269,245
2019	485,000	253,958
2020	505,000	237,118
2021	525,000	217,780
2022-2026	2,955,000	750,100
2027-2029	2,085,000	135,302
Totals	<u>\$ 7,485,000</u>	<u>\$ 2,146,933</u>

B. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 7,930,000	\$	\$ 445,000	\$ 7,485,000	\$ 460,000
Total Long-term Debt	<u>\$ 7,930,000</u>	<u>\$ 0</u>	<u>\$ 445,000</u>	<u>\$ 7,485,000</u>	<u>\$ 460,000</u>

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous duty positions in the county. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Employee Retirement System (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$172,753, FY 2015 was \$160,652, and FY 2016 was \$163,286.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/employers/GASB/Pages/GASB-Library.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 6. Insurance

For the fiscal year ended June 30, 2016, the Monroe County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Subsequent Events

A. Monroe County Jail

On August 18, 2016, the Monroe County Fiscal Court voted to close the Monroe County Jail effective August 31, 2016. The closure was a result of financial reasons and not being able to sufficiently staff the jail in order to comply with requirements of the Department of Corrections.

B. First Mortgage Revenue Refunding Bonds, 2016

On November 17, 2016, the Monroe County Public Properties Corporation issued revenue refunding bonds of \$4,760,000 to refinance the First Mortgage Revenue Bonds, 2009, which were originally issued for the purpose of constructing a judicial center. The principal is payable annually on November 1 and the final payment is due November 1, 2028. Interest is payable semi-annually on May 1 and November 1 of each year at varying rates.

Note 8. Prior Period Adjustments

The beginning fund balance reported on the Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis for the jail commissary fund has been restated by an increase of \$916. The restatement is due to voided prior year outstanding checks of \$141, an error in reporting outstanding checks of \$141, and the timing difference in recording \$634 of jail fees paid to fiscal court, for a total of \$916.

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MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 1,252,500	\$ 1,252,500	\$ 1,521,959	\$ 269,459
In Lieu Tax Payments	70,000	70,000	52,224	(17,776)
Excess Fees	39,000	39,000	77,710	38,710
Licenses and Permits	18,100	18,100	17,752	(348)
Intergovernmental	267,900	310,800	305,396	(5,404)
Miscellaneous	15,000	220,167	207,483	(12,684)
Interest	1,000	1,000	2,358	1,358
Total Receipts	<u>1,663,500</u>	<u>1,911,567</u>	<u>2,184,882</u>	<u>273,315</u>
DISBURSEMENTS				
General Government	819,583	1,063,730	699,793	363,937
Protection to Persons and Property	97,090	110,090	103,985	6,105
General Health and Sanitation	11,750	11,750	7,600	4,150
Social Services	18,500	19,138	10,500	8,638
Recreation and Culture	10,300	12,662	12,609	53
Administration	563,277	551,197	530,916	20,281
Total Disbursements	<u>1,520,500</u>	<u>1,768,567</u>	<u>1,365,403</u>	<u>403,164</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>143,000</u>	<u>143,000</u>	<u>819,479</u>	<u>676,479</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(458,000)</u>	<u>(458,000)</u>	<u>(385,000)</u>	<u>73,000</u>
Total Other Adjustments to Cash (Uses)	<u>(458,000)</u>	<u>(458,000)</u>	<u>(385,000)</u>	<u>73,000</u>
Net Change in Fund Balance	(315,000)	(315,000)	434,479	749,479
Fund Balance Beginning	<u>315,000</u>	<u>315,000</u>	<u>1,274,724</u>	<u>959,724</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,709,203</u>	<u>\$ 1,709,203</u>

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ROAD FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,284,833	\$ 1,284,833	\$ 1,817,514	\$ 532,681
Miscellaneous	26,122	26,122	34,312	8,190
Interest	1,000	1,000	1,510	510
Total Receipts	<u>1,311,955</u>	<u>1,311,955</u>	<u>1,853,336</u>	<u>541,381</u>
DISBURSEMENTS				
Roads	1,229,755	1,687,473	1,296,987	390,486
Capital Projects		32,830	32,830	
Administration	82,200	74,841	49,655	25,186
Total Disbursements	<u>1,311,955</u>	<u>1,795,144</u>	<u>1,379,472</u>	<u>415,672</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(483,189)</u>	<u>473,864</u>	<u>957,053</u>
Net Change in Fund Balance		(483,189)	473,864	957,053
Fund Balance Beginning		<u>483,189</u>	<u>483,189</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 957,053</u>	<u>\$ 957,053</u>

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 101,500	\$ 101,500	\$ 121,390	\$ 19,890
Charges for Services	11,000	11,000	10,526	(474)
Interest			26	26
Miscellaneous	10,102	18,449	14,300	(4,149)
Total Receipts	<u>122,602</u>	<u>130,949</u>	<u>146,242</u>	<u>15,293</u>
DISBURSEMENTS				
General Government		8,347		8,347
Protection to Persons and Property	475,052	474,506	430,833	43,673
Administration	105,550	106,096	99,150	6,946
Total Disbursements	<u>580,602</u>	<u>588,949</u>	<u>529,983</u>	<u>58,966</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(458,000)</u>	<u>(458,000)</u>	<u>(383,741)</u>	<u>74,259</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	458,000	458,000	385,000	(73,000)
Total Other Adjustments to Cash (Uses)	<u>458,000</u>	<u>458,000</u>	<u>385,000</u>	<u>(73,000)</u>
Net Change in Fund Balance			1,259	1,259
Fund Balance Beginning			<u>17,814</u>	<u>17,814</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,073</u>	<u>\$ 19,073</u>

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 28,007	\$ (11,993)
Miscellaneous		5,121	6,200	1,079
Interest			151	151
Total Receipts	40,000	45,121	34,358	(10,763)
DISBURSEMENTS				
General Government	10,000	15,121	11,700	3,421
Protection to Persons and Property	41,000	41,000	36,365	4,635
Airports	3,000	3,000	3,000	
Total Disbursements	54,000	59,121	51,065	8,056
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(14,000)	(14,000)	(16,707)	(2,707)
Net Change in Fund Balance	(14,000)	(14,000)	(16,707)	(2,707)
Fund Balance Beginning	14,000	14,000	115,193	101,193
Fund Balance - Ending	\$ 0	\$ 0	\$ 98,486	\$ 98,486

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 796,738	\$ 796,738	\$ 16,200	\$ (780,538)
Total Receipts	<u>796,738</u>	<u>796,738</u>	<u>16,200</u>	<u>(780,538)</u>
DISBURSEMENTS				
Capital Projects	796,738	796,738	16,200	780,538
Total Disbursements	<u>796,738</u>	<u>796,738</u>	<u>16,200</u>	<u>780,538</u>
Net Change in Fund Balance				
Fund Balance - Beginning			<u>3</u>	<u>3</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3</u>	<u>\$ 3</u>

MONROE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

MONROE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

MONROE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 482,400	\$	\$ 37,500	\$ 444,900
Buildings	11,933,027			11,933,027
Other Equipment	980,093	32,773	20,950	991,916
Vehicles	375,051	25,007		400,058
Infrastructure	8,883,763	937,683		9,821,446
Total Capital Assets	<u>\$ 22,654,334</u>	<u>\$ 995,463</u>	<u>\$ 58,450</u>	<u>\$ 23,591,347</u>

MONROE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2016

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Willett, Monroe County Judge/Executive
Members of the Monroe County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards***

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Monroe County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Monroe County Fiscal Court's financial statement and have issued our report thereon dated May 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Monroe County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Monroe County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Monroe County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses item 2016-001 to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Monroe County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

May 15, 2017

**MONROE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

MONROE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001: The Monroe County Jail Commissary Lacked Adequate Segregation Of Duties Over All Accounting Functions

A lack of segregation of duties existed over all jail commissary accounting functions. These control deficiencies were present because the bookkeeper received the mail, prepared and deposited all receipts, prepared and signed disbursements, and performed the monthly bank reconciliations with little or no oversight. This is a repeat finding and was included in the prior year audit as finding 2015-001.

This condition was the result of a limited budget, which restricted the number of employees the county could hire and delegate duties to. The lack of oversight could have resulted in misappropriation of assets and inaccurate reporting. Adequate segregation of duties would have prevented the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. In addition, proper segregation of duties should protect employees in the normal course of performing their daily duties.

The jailer should have separated the duties in preparing and depositing receipts, recording transactions, preparing and signing disbursements, and reconciling the bank account. If the duties could not have been segregated due to a limited number of staff or budget, strong oversight should have been provided over the employee responsible for the duties. In addition, compensating controls should have been documented if performed.

Views of Responsible Official and Planned Corrective Action:

The county did not provide a response.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MONROE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2016**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MONROE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

The Monroe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Excutive



County Treasurer

